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Problem 1. *Some pullbacks get too strong and finally break the up trend*

Our set of rules does not protect us from two negative scenarios:

Problem 2. *Some rallies manage to make a new 60 day higher highs but anyway make a lower high in comparison to previous swings*

*A **weak rally** is normally followed by a strong decline. Even of it finds initial support at our demand channel the subsequent bounce comes very weak*

Relative Strength Index (RSI)

- One of the most renowned momentum indicator, available on any charting platform
- Measures strength of moves on a scale from 0 to 100, with upper threshold at 70 level and lower threshold at 30 level
- The majority of traders uses that tool in the wrong way. When trend is **strong RSI goes over 70**. Many traders read that as indication of "overbought" conditions. They assume price has to turn down
- **When trend is weak, RSI goes under 30**. Many traders read that as indication of "oversold" conditions. They assume price has to turn up

How to measure strength of trend

RSI

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*When bulls get exhausted new swings up **fail to push RSI over the upper threshold***

How to measure strength of trend

RSI

Takeaways

- We can use a standard indicator RSI to measure strength of the up and down trends
- Every time bulls make a new higher high for the last 60 days we expect RSI to climb over 68. That overshot of the upper threshold confirms strength of the up trend
- In the course of a strong uptrend corrective pullbacks are not strong enough to push RSI under 40 level
- If bulls manage to make a new 60 day higher high but RSI fails to climb over the upper threshold at 68 that is a warning sign for bulls that up trend is weakening. That weak move up can be followed by a strong decline that would be able to push RSI under support at 40